# A New Equation

In 2004, it became clear that the world was witnessing a new energy equation driven by a number of factors – growing global demand, a more challenging frontier of energy supplies in areas such as the deep water and oil sands, and a complex geopolitical environment. Abundant, reliable energy is critical to healthy economies and healthy communities. Addressing this new equation is one of the greatest challenges facing energy producers and consumers.

ChevronTexaco has a 125-year history of rising to challenges and creating opportunities. Today, we are responding to the new energy equation by leveraging our strengths: a high-impact exploration and development program; a commitment to safe, efficient and environmentally sound operations; the application of technology to maximize the value of our existing assets and develop promising new energy sources; and the creation of partnerships that benefit our company, our communities and, of course, our many customers around the world.

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# TO OUR STOCKHOLDERS

In 2004, our company delivered the strongest financial performance in its 125-year history. Net income was $13.3 billion. We outperformed our peers in return on capital employed, a key measure of overall company performance. We strengthened our balance sheet, reducing our debt level by $1.3 billion and ending the year with cash and marketable securities of $10.7 billion. Most significant, we achieved a total stockholder return for the year of 25.5 percent and accomplished our five-year goal to be a leader among our three largest peers in this measure, posting an annualized return of 7.4 percent for 2000 through 2004. This was 9.7 percentage points higher than Standard & Poor's 500 return over the same five-year period.

We increased our annual dividend payments for the 17th consecutive year and returned value to stockholders through the launch of a common stock buyback program of up to $5 billion by 2007. At the end of 2004, we had repurchased shares in the open market totaling more than $2 billion.

## RIGHT STRATEGIES

Our performance was driven by executing well against the right strategies at the right time. In upstream, our strategic focus is on growing profitability in core areas and building new legacy positions. In natural gas, our strategy targets the commercialization of our significant international resource base for delivery to North American and Asian markets. In downstream, our strategic priority is to enhance returns by focusing on areas of market and supply strength.

Oil demand has been stronger than predicted, and spare capacity has been reduced. With almost 75 percent of our production in crude oil, we are well positioned to benefit from higher prices. At the same time, refining margins have been particularly strong in Asia and the U.S. West Coast and Sun Belt, where the company has a majority of its refining capacity.

## STRONG FOCUS, EXECUTION, GROWTH

While the industry benefited from high commodity prices this past year, ChevronTexaco's performance was enhanced by strong execution against our strategic objectives. Specific achievements included strong exploration results, with potentially significant new crude oil and natural gas discoveries in North America, Europe, Australia, Africa and Latin America. We also continued our portfolio rationalization through the sale of nonstrategic production assets at a time when we could take advantage of high market prices. In 2004, our downstream operations were aligned functionally across the globe. This resulted in significant operating and efficiency gains and produced more than $500 million in before-tax earnings improvements compared with a base year of 2002. We also made solid progress toward commercializing our equity natural gas resource base, most notably by securing long-term regasification capacity in the U.S. Gulf of Mexico and obtaining key permits for a planned Baja California, Mexico, liquefied natural gas import terminal.

We continued to focus on integrating our operations across the enterprise to capture efficiencies and create new value. For example, we modified our Pembroke Refinery in the United Kingdom to process market-disadvantaged equity crude oil from our Chad operations in Africa into high-quality gasoline blendstocks for North America. We have combined separate groups to create a single organization to manage technology for upstream and downstream. This approach, which is unique in the industry, allows us to optimize technology solutions across the enterprise, from the reservoir to the retail pump.

Looking forward, our growth opportunities are excellent. We are aggressively managing production decline rates in mature fields, adding exploration acreage in key areas and building a world-class portfolio of capital projects – Benguela Belize-Lobito Tomboco in Angola, Agbami in Nigeria, Tahiti in the Gulf of Mexico and the Tengizchevroil expansion in Kazakhstan. All of these projects are scheduled to come online over the next four years, contributing to our oil-equivalent production goal of 3 million barrels a day by 2008.

## A NEW EQUATION

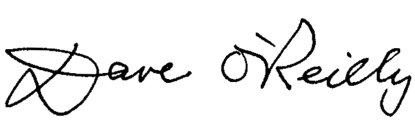
We are at a strategic inflection point in our industry. The convergence of growing demand, challenging resource locations such as the deep water and oil sands, a need for greater diversity of energy supplies, a complex geopolitical environment, and a shifting competitive landscape have created a fundamentally new energy equation.

ChevronTexaco is strongly positioned to succeed in this new environment. We have robust strategies that have been tested under a variety of market conditions. We are committed to achieving and maintaining world-class levels of operating and capital discipline. We are leveraging technology to create operating efficiencies in the near term and develop promising new energy sources for the long term. We are continuing to build on our efforts to be the partner of choice in strategic energy regions of the world.

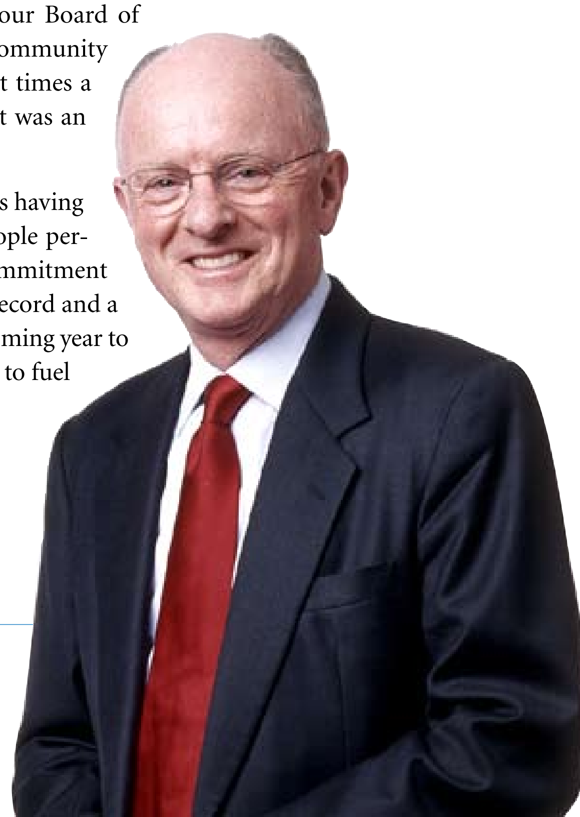
A strong reflection of our commitment to partnership occurred in 2004 when our Board of Directors held a meeting in Angola to review our business operations, witness our community engagement projects and visit with the country's leadership. It was one of the first times a Board from a major multinational company has met in sub-Saharan Africa, and it was an affirmation of our continuing commitment to this continent.

Even with sound strategies and a strong balance sheet, the critical factor for success is having the right people in the right positions doing the right things. ChevronTexaco's people performed superbly in 2004, and we are continuing to enhance the capabilities and commitment of our global work force. We have a strong management team with a proven track record and a dedicated, experienced Board. We look forward to the opportunities we face in the coming year to increase competitive returns and stockholder value and to deliver the energy needed to fuel economic development and growth around the world.

Thank you for your continued support.



Dave O'Reilly
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
MARCH 2, 2005

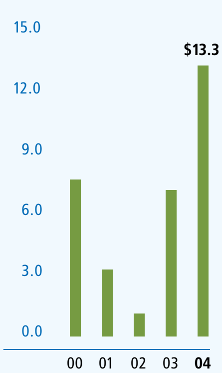


# CHEVRONTEXACO FINANCIAL HIGHLIGHTS

| Millions of dollars, except per-share amounts | 2004 | 2003 | % Change |
|---|---|---|---|
| Net income[1] | **$ 13,328** | $ 7,230 | 84 % |
| Sales and other operating revenues[1] | **$ 151,156** | $ 120,032 | 26 % |
| Capital and exploratory expenditures[2] | **$ 8,315** | $ 7,363 | 13 % |
| Total assets at year-end | **$ 93,208** | $ 81,470 | 14 % |
| Total debt at year-end | **$ 11,272** | $ 12,597 | (11)% |
| Stockholders' equity at year-end | **$ 45,230** | $ 36,295 | 25 % |
| Cash provided by operating activities | **$ 14,690** | $ 12,315 | 19 % |
| Common shares outstanding at year-end[3] (Thousands) | **2,107,120** | 2,138,295 | (1)% |
| Per-share data[3] | | | |
| Net income – diluted[1,4] | **$ 6.28** | $ 3.48 | 81 % |
| Cash dividends | **$ 1.53** | $ 1.43 | 7 % |
| Stockholders' equity | **$ 21.47** | $ 16.97 | 27 % |
| Common stock price at year-end | **$ 52.51** | $ 43.19 | 22 % |
| Total debt to total debt-plus-equity ratio | **19.9%** | 25.8% | |
| Return on average stockholders' equity | **32.7%** | 21.3% | |
| Return on capital employed (ROCE) | **25.8%** | 15.7% | |

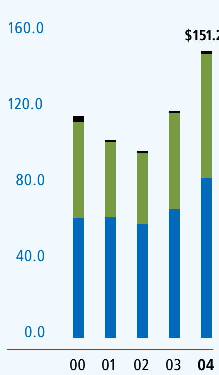
[1] Includes discontinued operations
[2] Includes equity in affiliates
[3] 2003 adjusted for stock split
[4] 2003 includes $0.08 for a capital stock transaction as described in Note 26 to the Consolidated Financial Statements

**NET INCOME**
Billions of dollars




Net income rose sharply on the strength of upstream operations and much-improved results from the downstream businesses in 2004. Special-item charges in 2002 reduced earnings more than $3 billion.

**SALES & OTHER OPERATING REVENUES***
Billions of dollars

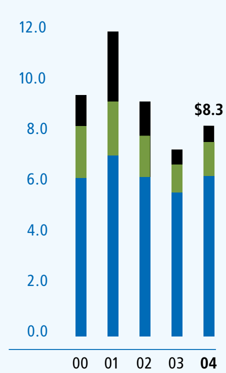



■ Chemicals & Other
■ Crude Oil & Condensate, Natural Gas & Natural Gas Liquids
■ Petroleum Products

Sales and other operating revenues increased 26 percent on higher prices for crude oil, natural gas and refined products.

**Includes discontinued operations*

**CAPITAL & EXPLORATORY EXPENDITURES***
Billions of dollars

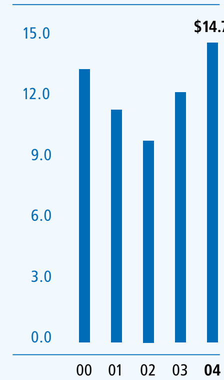



■ Chemicals & Other
■ Refining, Marketing & Transportation
■ Exploration & Production

Capital and exploratory expenditures increased about 13 percent from the 2003 level. Years 2000 through 2002 were higher due to additional investments in equity affiliates Tengizchevroil and Dynegy Inc.

**Includes equity in affiliates*

**CASH PROVIDED BY OPERATING ACTIVITIES**
Billions of dollars



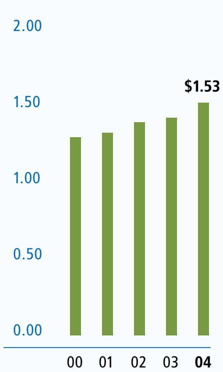

Higher earnings helped boost the company's operating cash flow by 19 percent.

# CHEVRONTEXACO OPERATING HIGHLIGHTS[1]

| | 2004 | 2003 | % Change |
|---|---|---|---|
| Net production of crude oil and natural gas liquids (Thousands of barrels per day) | **1,710** | 1,808 | (5)% |
| Net production of natural gas (Millions of cubic feet per day) | **3,958** | 4,292 | (8)% |
| Net oil-equivalent production (Thousands of oil-equivalent barrels per day) | **2,509** | 2,637 | (5)% |
| Refinery input (Thousands of barrels per day) | **1,958** | 1,991 | (2)% |
| Sales of refined products (Thousands of barrels per day) | **3,908** | 3,738 | 5 % |
| Net proved reserves of crude oil, condensate and natural gas liquids[2] (Millions of barrels) | | | |
| – Consolidated companies | **5,511** | 6,280 | (12)% |
| – Affiliated companies | **2,462** | 2,319 | 6 % |
| Net proved reserves of natural gas[2] (Billions of cubic feet) | | | |
| – Consolidated companies | **16,128** | 17,553 | (8)% |
| – Affiliated companies | **3,547** | 2,638 | 34 % |
| Net proved oil-equivalent reserves[2] (Millions of barrels) | | | |
| – Consolidated companies | **8,199** | 9,206 | (11)% |
| – Affiliated companies | **3,053** | 2,758 | 11 % |
| Number of employees at year-end[3] | **47,265** | 50,582 | (7)% |

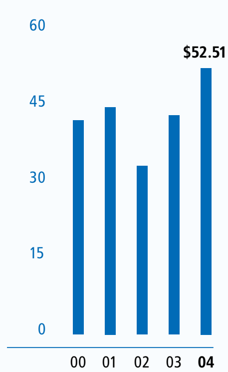
[1] Includes equity in affiliates, except number of employees
[2] At the end of the year
[3] Excludes service station personnel

**ANNUAL CASH DIVIDENDS**
Dollars per share




The company increased its annual dividend payout for the 17th consecutive year.

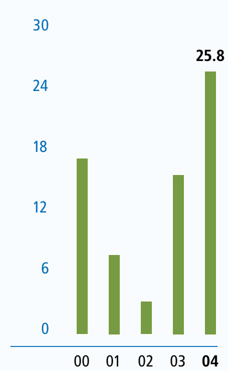
**CHEVRONTEXACO YEAR-END COMMON STOCK PRICE***
Dollars per share




The company's stock price rose 22 percent during 2004, outpacing the broader market indexes.

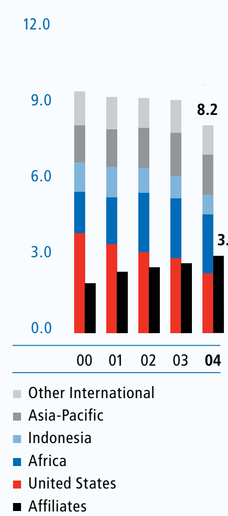
*Adjusted for stock split in 2004*

**RETURN ON CAPITAL EMPLOYED**
Percentage




Higher net income helped boost ChevronTexaco's return on capital employed to 25.8 percent.

**NET PROVED RESERVES**
Billions of BOE*




Net proved reserves for consolidated companies declined 11 percent in 2004, while affiliated companies' reserves climbed by 11 percent.

*Barrels of oil-equivalent*

# STRATEGY + EXECUTION =

# SUSTAINED

CHEVRONTEXACO IS COMMITTED TO CREATING LONG-TERM STOCKHOLDER VALUE WHILE DELIVERING NEW ENERGY SUPPLIES TO MEET GROWING WORLDWIDE DEMAND. IN 2004, WE ACHIEVED MILESTONES IN OUR TWO MAIN BUSINESSES – UPSTREAM AND DOWNSTREAM – THAT ARE DELIVERING STRONG RESULTS NOW AND FOR THE FUTURE.

Our upstream and downstream operations are large, diversified and competitive. In upstream, we are among the top hydrocarbon producers in Asia-Pacific, Indonesia, Kazakhstan, South America, the United States and West Africa. We are the only international oil company producing under a concession from the Kingdom of Saudi Arabia, and we are the largest natural gas resource holder in Australia.

Our downstream is global, with 21 refineries and a marketing network in approximately 170 countries. We have a highly competitive downstream presence in Asia and on the West Coast of North America, areas where energy demand growth is expected to be especially strong. We also have a large downstream presence on the U.S. Gulf Coast, in Latin America and in sub-Saharan Africa. We market products under three of the industry's most respected brands – Chevron, Texaco and Caltex.

▸ Opposite page, left to right: Sanha condensate gas utilization and Bomboco oil project, Angola; Hamaca heavy-oil upgrader, Venezuela; Chevron "TOP TIER" gasoline, Hawaii service station.

**2004 KEY RESULTS**

UPSTREAM

- Achieved exploration success rate of 57 percent, compared with 10-year industry average of 32 percent
- Brought on new production from Angola, China, U.K. North Sea, Thailand, Venezuela
- Secured access to planned Sabine Pass regasification facility in Louisiana
- Reached agreements to evaluate gas-to-liquids opportunities in Qatar

DOWNSTREAM

- Realized more than $500 million in before-tax earnings improvements compared with 2002 base period
- Transformed to a global, functional organization model
- Began marketing fuels under Texaco brand in United States; Chevron first U.S. and Canada brand designated "TOP TIER Detergent Gasoline" by four leading auto manufacturers

# RESULTS

**UPSTREAM** Our upstream strategy is to improve profitability in core areas and build new legacy positions. Progress was made on both fronts in 2004.

CORE AREAS During the year, we brought a number of world-class projects onstream and strengthened our position in several core areas. One such project was the Bomboco Field, which began initial production in 2004. Bomboco is part of a $1.9 billion development under way in the deep water of Angola. We also achieved first production from China's Bohai Bay and from an expansion of the Alba Field in the U.K. North Sea. In Venezuela, the Hamaca heavy-oil upgrader project was completed, and the first sales of Hamaca synthetic crude were made.

We have an ongoing effort under way to maximize value from our producing assets. A major focus is on lowering costs while increasing reliability and production volumes. We also continue to upgrade our portfolio of core assets. In 2004, we completed virtually all of our major planned asset sales, taking advantage of favorable market conditions to sell nonstrategic producing properties. ›

THE "BIG 5" We are moving forward on our "Big 5" projects. These are legacy developments that are expected to boost production and reserves over the next five years. Three of the projects are in the deep water: the Agbami Field in Nigeria, the Tahiti Field in the U.S. Gulf of Mexico and the Benguela Belize-Lobito Tomboco development in Angola. Additionally, we are moving forward with a major expansion at the Tengizchevroil joint venture in Kazakhstan. We expect these and other capital projects to add approximately 850,000 (net) barrels of oil-equivalent production per day by 2009. Also in our "Big 5" lineup is the development of the giant Greater Gorgon Area natural gas fields offshore Western Australia (see Page 9).

EXPLORATION SUCCESSES For the third consecutive year, our exploration efforts achieved excellent results. Major discoveries were made in the U.S. Gulf of Mexico, Western Australia, Venezuela, Nigeria, Thailand, the U.K. North Sea, and the offshore area between Angola and the Republic of Congo. We acquired new acreage in the U.S. Gulf of Mexico, offshore eastern Canada, Nigeria, Venezuela, Norway and the U.K. Atlantic Margin. We also increased our position in the Mackenzie Delta in northern Canada and extended exploration rights in Angola. In an ongoing effort to move more resources into reserves, we are appraising recent high-potential discoveries in the deepwater Gulf of Mexico, Nigeria and Angola.

NEW BUSINESS DEVELOPMENT We intend to build our reputation as a partner of choice to secure major new opportunities in resource-rich areas of the world. In 2004, we announced a Memorandum of Understanding with Russia's Gazprom to begin feasibility studies for oil and natural gas projects in Russia and the United States. We also are pursuing opportunities in northern Africa and the Middle East.

**DOWNSTREAM** Our downstream strategy is to improve returns by focusing on areas of market and supply strength. In 2004, we completed a reorganization along global, functional lines, which created efficiencies and improvements across the organization. We exceeded our target of generating more than $500 million in before-tax earnings improvements compared with a 2002 base period. This was a 2005 year-end goal that was met more than a year in advance.

REFINING Our refinery operations are located in strong markets, have the flexibility to exploit market opportunities and can run significant volumes of lower-quality, lower-priced crude oil. Our refinery utilization rate, an industry measure that incorporates the economic value of each refinery process unit, has risen approximately 2 percent since 2003. Improved utilization rates have enabled us to capitalize on high margins, especially in Asia.

## A REFINING SYSTEM STRATEGICALLY LOCATED AND CONFIGURED

Our refining portfolio is very competitive. Approximately 60 percent of our refining capacity is located in the Asia-Pacific and on the North American West Coast, where margins have been particularly strong. In 2004, we increased our ownership in the Singapore Refining Company to take advantage of Asia's growing energy demand. Our refineries also are flexible and able to run significant volumes of lower-quality crude oil. Our U.S. West Coast and Gulf Coast refineries are complex and positioned for advantage when light-heavy price differentials are wide. We currently are focused on enhancing our light product conversion and heavy crude capability, with upgrades planned at refineries in Asia, California and Mississippi.

► In response to Asia's growing demand for refined products, we increased our ownership in the Singapore Refining Company from 33 percent to 50 percent.

## DEVELOPING THE PROMISE OF NATURAL GAS


► The *Northwest Swan* is the newest liquefied natural gas carrier in Australia's North West Shelf Venture.

Over the next two decades, demand for natural gas is expected to outpace demand for oil. The fastest-growing markets will be Asia and the United States, and ChevronTexaco is positioned to supply both. We have large holdings of natural gas resources in both the Pacific and Atlantic basins. Our strategy is to commercialize them by targeting North American and Asian markets.

In the Pacific Basin, our focus is on the Greater Gorgon Area offshore Western Australia. We plan to deliver liquefied natural gas (LNG) from Gorgon to markets in Asia and the West Coast of North America. Also in Australia, we are part of the North West Shelf Venture, which supplies LNG to Japan and South Korea. In 2004, a fourth gas-processing train was completed to expand LNG production, and ChevronTexaco began operating the venture's newest LNG carrier. In the Atlantic Basin, our strategy is to deliver natural gas from West Africa and Latin America to markets in North America. We have received key permits for regasification terminals on the West and Gulf coasts of North America and have secured capacity in a planned regasification terminal in Louisiana.

Gas-to-liquids (GTL) is the other important element of our natural gas strategy. Through our Sasol Chevron joint venture, we have a GTL project under way in Nigeria and are evaluating projects in Qatar and Australia.

Our LNG and GTL initiatives benefit from our experience across the natural gas value chain, including our global shipping, power, and North America marketing and pipeline operations.

During the year, we continued to lower refinery operating and maintenance costs. Our turnaround process for refinery maintenance is considered world class by the industry's leading external refining benchmarking firm. We also are driving greater efficiencies through our refinery network. In 2004, our refineries improved energy efficiency by 2.5 percent compared with 2003, an important achievement in a high fuel-price environment.

MARKETING We made significant strides in our marketing initiatives in 2004. In July, we began marketing fuels under the Texaco brand in the United States. By the end of the year, we were supplying more than 1,000 Texaco retail sites, primarily in the Southeast, and had plans to supply additional sites in the Southeast and West in 2005. We also received important recognition of our Chevron fuel brand. It was the first in the United States and Canada to be certified by four of the world's top automakers as meeting "TOP TIER" criteria for gasoline detergency levels. We also made progress in selling nonstrategic retail sites. At the end of 2004, we had sold nearly 1,600 sites since a divestiture program began in 2003. At the same time, we maintained sales volumes through our network of approximately 25,700 retail outlets, including affiliates.

PEMBROKE REFINERY

In 2004, we modified the Pembroke Refinery in the United Kingdom to process acidic, high-calcium crude oil from the Doba Field in the Republic of Chad. These modifications enable us to increase the value of the crude oil and turn it into high-value petroleum products.


## AT CHEVRONTEXACO, WE ARE BUILDING THE FOUNDATION FOR PROFITABLE GROWTH THROUGH MAJOR LEGACY UPSTREAM PROJECTS, A HIGH-IMPACT NATURAL GAS BUSINESS AND OUR GLOBAL DOWNSTREAM ORGANIZATION.

AUSTRALIA

ChevronTexaco is part of the North West Shelf Venture, which supplies liquefied natural gas to markets in Japan and South Korea. Here, operator technicians Steve Blasedale (left) and Craig Baker help oversee a fourth gas-processing train, which was completed in 2004. Also in Australia, we are moving to develop the giant natural gas resources in the Greater Gorgon Area, one of our "Big 5" projects.

AGBAMI

A "Big 5" project, the $4.5 billion Agbami development is located in Nigeria's deep water. It is estimated to contain approximately 800 million barrels of oil-equivalent that are potentially recoverable. Development drilling is under way, and we expect initial production in 2008.

## TAHITI

The Tahiti Field in the U.S. Gulf of Mexico is estimated to contain between 400 million and 500 million barrels of oil-equivalent that are potentially recoverable, thereby ensuring its position as one of our “Big 5” projects. In 2004, we completed a successful well test in 4,100 feet (1,215 meters) of water and 25,800 feet (7,870 meters) subsea – the deepest yet in the gulf.

## RISING STAR

The Texaco Star is hoisted atop this station in Rockwall, Texas. In 2004, we began marketing fuels under the Texaco brand in the United States. By the end of the year, we were supplying more than 1,000 Texaco retail sites, primarliy in the Southeast, and had plans to supply additional sites in the Southeast and West in 2005.

## VENEZUELA

Latin America is an important part of our Atlantic Basin liquefied natural gas strategy. In 2004, we found significant quantities of natural gas in Venezuela's Plataforma Deltana. This confirmed our initial assessment of the region as a potential source of new and significant natural gas resources.

## KAZAKHSTAN

A "Big 5" project is the Tengizchevroil second generation/sour gas injection project in Kazakhstan. The project, which uses state-of-the-art injection technology, is expected to increase total crude oil production capacity from 298,000 barrels a day to between 430,000 and 500,000 barrels a day when the project is completed in 2006.

MANAGING A GLOBAL, CAPITAL-INTENSIVE BUSINESS REQUIRES RIGOR AND DISCIPLINE. WE HELP ENSURE BOTH THROUGH A SET OF PRIORITIES WE CALL "4+1." THESE PRIORITIES DRIVE WORLD-CLASS PERFORMANCE IN FOUR AREAS: OPERATIONAL EXCELLENCE, COST REDUCTION, CAPITAL STEWARDSHIP AND PROFITABLE GROWTH. THE "PLUS 1" IS ORGANIZATIONAL CAPABILITY – HOW WE COMBINE THE TALENT OF OUR PEOPLE WITH COMPREHENSIVE MANAGEMENT SYSTEMS TO ACHIEVE SUPERIOR PERFORMANCE IN ALL FOUR AREAS.

# 4+1=

# WORLD-CLASS PERFORMANCE

▸ Above: Gulzada Izbasarova, site safety officer, helps ensure a safe workplace for the Tengizchevroil second generation/sour gas injection project in Kazakhstan, a "Big 5" development. ▸ Below: James Farrell, environmental operator, takes a sample from water treatment ponds at ChevronTexaco's Richmond Refinery in California.

We have designed and implemented comprehensive and disciplined management systems to help us build organizational capability in operational excellence and capital stewardship. These systems are aimed at achieving top operating performance and ensuring that we direct our $10 billion 2005 capital and exploratory budget toward the highest-quality opportunities with the greatest potential to create future growth and stockholder value.

**OPERATIONAL EXCELLENCE** Operational excellence is a systematic process for managing our businesses at world-class levels. It is not an independent process; rather, it is woven into every aspect of our activities. Through operational excellence, we protect people and the environment and maintain our reputation as a reliable and efficient energy provider.

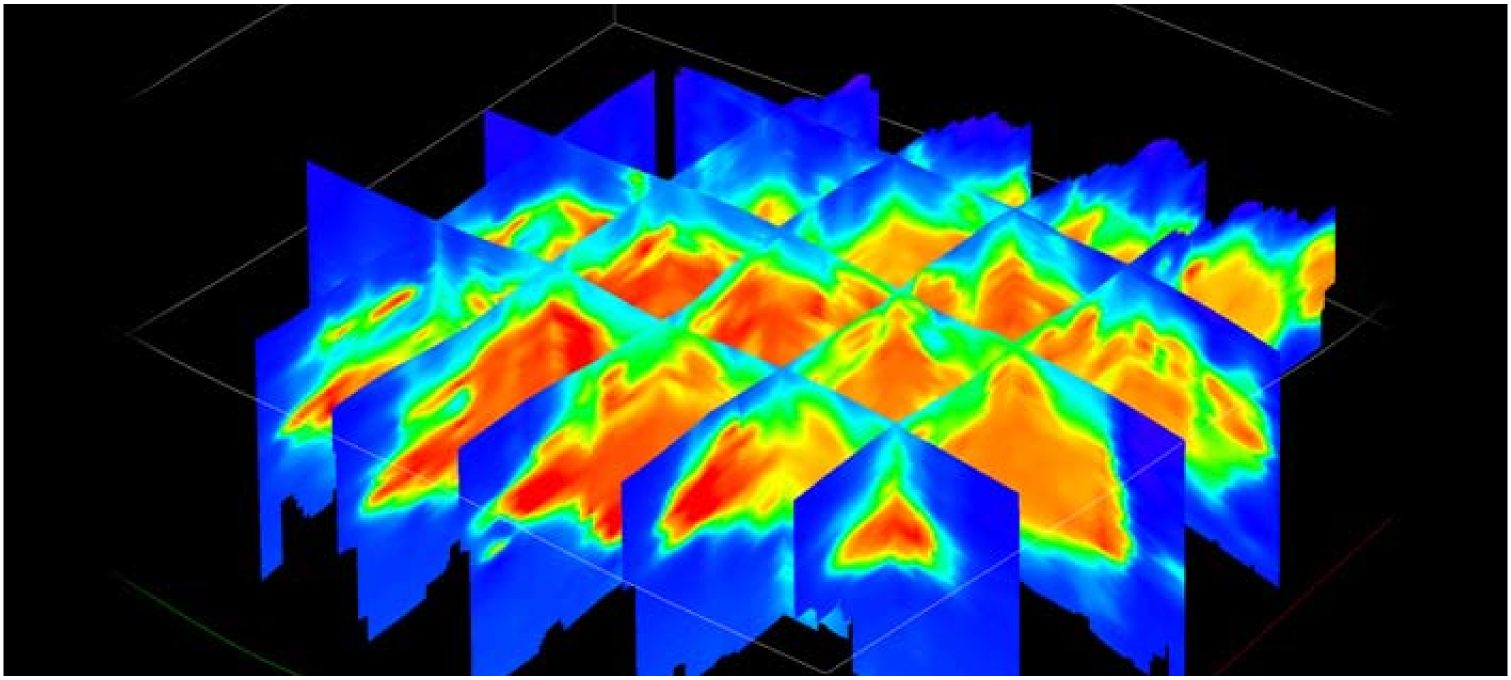
Our company's highest priority is safety, and 2004 was our safest year ever. Our total recordable incident rate (per 200,000 hours worked) for employees and contractors improved 14 percent from the previous year, and days away from work improved 10 percent. Even so, our goal is zero incidents – no one injured – and we will not be satisfied until we reach it.

Our environmental performance also continued to improve during the year. Compared with 2003, we reduced the number of oil spills by 14 percent and the volume spilled by 42 percent. We also made strides in energy conservation. In 2004, we consumed 2 percent less energy in our operations than in the previous year, representing savings of $72 million. Since 1992, the year we began tracking, we have reduced companywide energy use by 24 percent. We also are tracking and managing our greenhouse gas emissions. As part of this effort, in 2004 we completed a companywide third-party verification of greenhouse gas emissions.

**CHEVRON ENERGY SOLUTIONS (CES)** This subsidiary helps external partners and internal business units find ways to save energy. For example, in 2004, the U.S. Postal Service (USPS) asked CES to complete major energy efficiency upgrades and a hybrid renewable power plant – including a fuel cell and two solar electric technologies – at USPS's largest processing and distribution facilities in San Francisco, California. The improvements are expected to lower total annual electricity purchases by $1.2 million and reduce carbon dioxide emissions by approximately 6,600 tons annually, the equivalent of planting 1,860 acres of trees.

## BUILDING THE "PLUS 1" FOR CAPITAL STEWARDSHIP

We are committed to being the industry leader in capital stewardship and have a management system in place to help us identify the most promising investments and execute them well. An example is the $2.2 billion Benguela Belize-Lobito Tomboco project offshore Angola, one of our "Big 5" projects. The development calls for the first compliant piled tower (CPT) to be installed outside the U.S. Gulf of Mexico. Fixed to the sea floor, it will support drilling and production facilities and will be the fifth-tallest structure in the world. The tower is being fabricated in numerous countries – on schedule and on budget. Above: The CPT base template and foundation piles are en route from Texas to Angola.



## INNOVATION + TECHNOLOGY =

# COMPETITIVE EDGE

WE ARE COMBINING THE INNOVATION OF OUR PEOPLE WITH THE LATEST ADVANCEMENTS IN TECHNOLOGY TO CREATE A COMPETITIVE EDGE AND DRIVE FUTURE GROWTH. THE TECHNOLOGIES WE ARE DEPLOYING ARE HELPING US DECREASE COSTS AND GENERATE GREATER EFFICIENCIES. JUST AS IMPORTANT, THEY ARE HELPING US FIND AND DEVELOP NEW ENERGY RESOURCES FOR THE FUTURE.

► Shown above is a 3-D model of well temperature data from the Kern River heavy oil field in Bakersfield, California. ChevronTexaco is a leader in heavy-oil production and processing, and in thermal management.

ChevronTexaco has built a technology organization that is unique in our industry. It is the only one that is fully integrated and capable of delivering technology and services throughout the energy value chain. Our technology strategy also is partner-driven. We have forged alliances to share technical risk, cost and talent with external organizations that have complementary capabilities. Our technology group not only supports the strategies of our core businesses, but also is engaged in developing technology to enable our most promising opportunities.

**CORE BUSINESSES** In upstream, we are deploying technology to help select exploration prospects with ever-greater precision and drill them with minimum impact on the environment. Our proprietary seismic technology has led to a series of major discoveries in recent years, particularly in deep water. In 2004, our exploratory success rate was 57 percent, well above the 10-year industry average of 32 percent.

Technology also is supporting major petroleum developments. One example is the Tengizchevroil (TCO) sour gas injection project in Kazakhstan. In 2004, TCO completed the design of the world's largest single train sulfur-recovery unit and significantly advanced gas-injection technology. In another effort, we are developing a next-generation reservoir simulator with an industry partner. The simulator will improve the speed and accuracy of modeling large, complex reservoirs and estimating their reserves.

Additionally, technology is playing an important role as we commercialize our large natural gas resources. Efforts are under way to improve the construction of liquefied natural gas (LNG) facilities, reduce LNG storage costs and enhance regasification processes. The Sasol Chevron gas-to-liquids (GTL) joint venture will be applying some of the most advanced GTL technologies to projects in progress in Nigeria and Qatar.

In downstream, we are deploying catalyst technologies and making advanced fuels for our customers. As part of this effort, we continue to improve our ability to convert extra-heavy oil into high-value, light petroleum products. Additionally, we are investing in technology to produce lubricant additives that use sulfur-free GTL base stocks.

**PARTNERSHIPS** We partner with academic, business and public-sector organizations to create and deploy effective, cost-efficient technologies. In 2004, we established a new Center of Research Excellence at the University of Southern California to develop next-generation digital oil-field technologies. Centers focused on other research have been established at the University of Tulsa and Colorado School of Mines.


## PRACTICAL HYDROGEN – CREATING FUTURE FUEL OPTIONS

As energy demand continues to grow, ChevronTexaco is pursuing next-generation fuels, including hydrogen. In 2004, the U.S. Department of Energy selected ChevronTexaco to lead a consortium that will demonstrate hydrogen infrastructure and fuel-cell vehicles. Over a five-year period, the consortium will build up to six hydrogen energy service stations with fueling facilities for small fleets of fuel-cell vehicles and capacity to generate high-quality electrical power from stationary fuel cells.

▸ Above: A hydrogen fuel cell unit at our San Ramon, California, headquarters is the primary power source for one of our data centers. Shown here (left to right), Jeffrey Jacobs and Ed Wisler, ChevronTexaco Technology Company. ▸ Below: The first of six U.S. hydrogen energy stations opened in early 2005 in Chino, California.

ACCESS TO ABUNDANT, RELIABLE ENERGY IS ESSENTIAL TO HEALTHY ECONOMIES AND QUALITY OF LIFE. WE ARE FORMING PARTNERSHIPS TO HELP BUILD ECONOMIC AND HUMAN CAPACITY IN THE COMMUNITIES WHERE WE OPERATE AND TO PROVIDE A PLATFORM FOR SUSTAINABLE BUSINESS DEVELOPMENT.


► An estimated 700,000 Angolans have benefited from a partnership initiative to support the country's agricultural development.

At ChevronTexaco, we believe that how we do business is as important as the business we do. We are committed to corporate responsibility and take special care to ensure that our presence in a community builds not only economic capacity, but also human capacity.

How we operate in Africa is a good example. We are one of the largest U.S. private investors in sub-Saharan Africa, an area that holds enormous potential for adding to the world's energy supplies. Despite significant progress, the region remains one of the world's most challenging in terms of social and economic development. By forming public-private partnerships, we are creating sustainable programs to expand the capacity of local communities to become economically self-sufficient and enhance their quality of life.

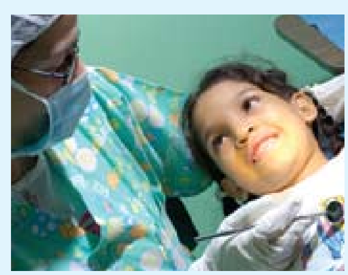
The largest of these partnerships is a $50 million initiative to help Angola rebuild from its long civil war. Approximately 40 percent of the funds are in support of agricultural development, an area that offers the greatest potential to increase family income. At the end of 2004, an estimated 700,000 Angolans had benefited from seeds, tools, food and technical aid that had been given to assist small farms. Partners include the U.S. Agency for International Development, the United Nations Development Program and other organizations.

Additional efforts are under way to develop small- and medium-sized businesses in Angola. Funding has been committed to support the opening of the country's first micro-credit bank. Partners are European development institutes and the International Finance Corporation, an arm of the World Bank.

**HEALTHY COMMUNITIES** A number of ChevronTexaco's major operations are in countries threatened by HIV/AIDS. In early 2005, we began implementing a corporatewide policy to provide employees access to care and treatment where available. We also continue to build public-private partnerships to prevent and treat this disease in the broader community. In Latin America, the Trust for the Americas recognized our company for the steps we are taking to improve health and dental care, as well as education, particularly in Venezuela.

## DEVELOPING ENERGY AND PEOPLE

Training and developing the local work force is one of our highest priorities and one of the most important ways we contribute to a country's social and economic capacity. One example is the Partitioned Neutral Zone (PNZ) between Saudi Arabia and Kuwait. Over the years, we have prepared Saudi employees to assume professional and managerial positions for the operations there. Today, more than 90 percent of PNZ employees are from the national work force.



► Bottom, right: We are partnering with a nonprofit pediatric hospital in Venezuela to provide health and dental care to youngsters, such as Alicia Fernandez, who live in Zulia State.

# A NEW EQUATION : MANAGEMENT PERSPECTIVES

SUSTAINED SUCCESS REQUIRES A DEEP UNDERSTANDING OF THE OPERATING ENVIRONMENT, THE DEVELOPMENT OF SOUND STRATEGIES IN THE CONTEXT OF THAT ENVIRONMENT AND DISCIPLINED, FLAWLESS EXECUTION OF THOSE STRATEGIES. CHEVRONTEXACO HAS A BROAD GRASP OF ALL THREE DIMENSIONS OF SUCCESS. HERE, CHAIRMAN AND CEO DAVE O'REILLY AND OTHER COMPANY EXECUTIVES DISCUSS THE NEW ENERGY EQUATION AND CHEVRONTEXACO'S STRATEGIC ROAD MAP.

**O'REILLY:** When we talk about a new equation in the energy business, we mean that our operating environment is changing in significant ways. Demand continues to rise while supplies are relatively constrained, particularly in OECD (Organization for Economic Cooperation and Development) countries. New resources are located in areas that are increasingly challenging to develop, such as the deep water or oil sands. And the geopolitical environment is becoming more complex. As we move into this new environment, both consuming and producing nations are coming to view energy as a strategic concern. ChevronTexaco is in a strong position to succeed in this environment. We have robust strategies that work well under a wide range of market conditions. We are bringing major new production projects on line in key energy basins around

DAVID J. O'REILLY — PICTURED FROM LEFT: Chairman of the Board and Chief Executive Officer
PETER J. ROBERTSON — Vice Chairman of the Board
GEORGE L. KIRKLAND — Executive Vice President, Upstream and Gas
PATRICIA A. WOERTZ — Executive Vice President, Downstream

the world, and we are making focused investments to test the practical applications of alternate energy sources. Finally, we enjoy a strong reputation as a partner of choice, which will increasingly be a competitive advantage in an interdependent, interconnected world.

**ROBERTSON:** A major factor in today's energy equation is growth in demand. Recent increases have been phenomenal. China, where there is a rapidly growing middle class, has doubled oil imports in the last four years, and economic growth in Asia, as whole, is forecast to continue at a strong pace. Globally, we anticipate population growth of approximately 1 billion people by 2020, primarily in the developing world. They will aspire to a standard of living that will require access to considerable amounts of energy. Put simply, the world needs all the energy it can get. I am an optimist about meeting this challenge. We use energy much more efficiently than we ever have in the past and our focus on conservation will continue. We are developing, adapting and applying technology to maximize the value of the resources we have. And we are making investments with the long term in mind, not in response to boom-or-bust cycles.

**KIRKLAND:** Despite changes in our operating environment, we are continuing to apply the same fundamentals that have driven the success of our business since its inception – discipline, innovation and execution. That being said, we have certain competencies that give us a competitive advantage in today's environment. Our exploration program was very strong in 2004, with a success rate of 57 percent, compared with a 10-year industry average of 32 percent. Our competencies in deepwater development and operations will become increasingly important over the next 10 years as we increase our deepwater portfolio from 3 percent to 20 percent of total production. And we have distinguished ourselves as an effective partner with host governments in developing countries, a strategic focus area for developing new supplies.

**WOERTZ:** With global refineries running at nearly full capacity, meeting growing demand requires greater levels of ingenuity and efficiency. Our refinery improvements are focused on increasing both productivity and the ability to handle a more diverse and difficult crude slate, an important advantage as demand for light, sweet crude relative to supplies continues to intensify worldwide. Customers around the globe continue to expect new products, including cleaner fuels. We are finding innovative ways to develop technology and deliver it where it is needed. With ingenuity comes flexibility and adaptability, key dynamics for the new equation.

## CHEVRONTEXACO AT A GLANCE

ChevronTexaco Corporation celebrated its 125th anniversary in 2004. Since its founding, it has grown to be one of the world's largest integrated energy companies. We have more than 47,000 employees and a presence in approximately 180 countries. We are involved in virtually every aspect of the energy industry – from crude oil and natural gas exploration and production to the refining, marketing and transportation of petroleum products. We also have interests in petrochemicals and power generation assets and are working to develop and commercialize future energy technologies.

At the end of 2004, worldwide net proved oil and natural gas reserves for consolidated operations were 8.2 billion barrels of oil-equivalent and for affiliate operations 3.1 billion barrels of oil-equivalent. For the year, net production averaged 2.5 million barrels per day of oil-equivalent. Major producing areas include Angola, Indonesia, Kazakhstan, Nigeria, the Partitioned Neutral Zone, the United Kingdom and the United States. Major exploration areas include Angola, Nigeria, the U.S. Gulf of Mexico, Venezuela, and the offshore area between Angola and the Republic of Congo.

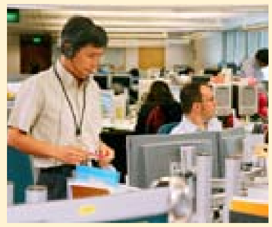
ChevronTexaco holds vast natural gas resources in some of the world's most prolific basins, including Australia where it is the largest leaseholder of undeveloped natural gas resources. Plans are under way to commercialize these resources through liquefied natural gas (LNG) and gas-to-liquids (GTL) technologies. Major LNG projects are under way to supply markets in North America and Asia. Through our Sasol Chevron joint venture, we are pursuing GTL projects in Nigeria, Qatar and Australia. Our natural gas business also includes pipeline, shipping, natural gas marketing and trading, and power generation.

# UPSTREAM


# OTHER

▸ Clockwise from top right: Caltex station, Singapore; Hawaii Refinery, Oahu; San Diego, California, terminal; environmental laboratory, Richmond, California, refinery.

▸ Clockwise from top right opposite page: Tengizchevroil second generation/sour gas injection project, Kazakhstan; ChevronTexaco *Colorado Voyager;* Singapore trading floor; North West Shelf Venture, Australia; Bohai Bay, China.



# DOWNSTREAM

With 21 wholly owned and affiliated refineries, ChevronTexaco processed approximately 2 million barrels of crude oil per day in 2004 and averaged approximately 4 million barrels per day of refined products sales worldwide. Strategic focus areas are Asia, the U.S. West Coast, U.S. Gulf Coast and Latin America, and sub-Saharan Africa. Worldwide, we have strong recognition through our Chevron, Texaco and Caltex motor fuel brands. Products are sold through a network of approximately 25,700 retail stations, including those of affiliate companies.

# BUSINESSES

ChevronTexaco, through its 50-50 joint venture Chevron Phillips Chemical Company LLC (CPChem), is one of the leading manufacturers of commodity petrochemicals. CPChem has 32 manufacturing facilities in eight countries. Chevron Oronite markets more than 500 performance-enhancing products and supplies one-fourth of the world's fuel and lubricant additives. Chevron Energy Solutions develops and constructs energy-saving projects for external and internal customers. Global Power Generation develops and markets commercial power projects worldwide.

ENERGY TERMS

**Additives** Chemicals to control engine deposits and improve lubricating performance.

**Barrels of oil-equivalent** (BOE) A unit of measure to quantify crude oil and natural gas amounts using the same basis. Natural gas volumes are converted to barrels on the basis of energy content. See *oil-equivalent gas* and *production*.

**Condensates** Liquid hydrocarbons produced with natural gas, separated by cooling and other means.

**Enhanced recovery** Techniques used to increase or prolong production from crude oil and natural gas fields.

**Exploration** Searching for crude oil and/or natural gas by utilizing geologic and topographical studies, geophysical and seismic surveys, and drilling of wells.

**Gas-to-liquids** (GTL) A process that converts natural gas into high-quality transportation fuels.

**Greenhouse gases** Gases that trap heat in the Earth's atmosphere (e.g., carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride).

**Integrated energy company** A company engaged in all aspects of the energy industry: exploring for and producing crude oil and natural gas *(upstream)*; refining, marketing and transporting crude oil, natural gas and refined products *(downstream)*; manufacturing and distributing petrochemicals *(chemicals)*; and generating power.

**Liquefied natural gas** (LNG) Natural gas that is liquefied under extremely cold temperatures to facilitate storage or transportation in specially designed vessels.

**Liquefied petroleum gas** (LPG) Light gases, such as butane and propane, that can be maintained as liquids while under pressure.

**Natural gas liquids** (NGL) Separated from natural gas, these include ethane, propane, butane and natural gasoline.

**Oil-equivalent gas** (OEG) The volume of natural gas needed to generate the equivalent amount of heat as a barrel of crude oil. Approximately 6,000 cubic feet of natural gas is equivalent to one barrel of crude oil.

**Oil sands** Naturally occurring mixture of bitumen – a heavy, viscous form of crude oil – water, sand and clay. Using hydroprocessing technology, bitumen can be refined to yield *synthetic crude oils*.

**Petrochemicals** Derived from petroleum; used principally for the manufacture of chemicals, plastics and resins, synthetic fibers, detergents, adhesives, and synthetic motor oils.

**Production** *Total production* refers to all the crude oil and natural gas produced from a property. *Gross production* is the company's share of total production before deducting royalties. *Net production* is gross production minus royalties paid to landowners. *Oil-equivalent production* is the sum of the barrels of liquids and the oil-equivalent barrels of natural gas produced. See *barrels of oil-equivalent* and *oil-equivalent gas*.

**Refinery utilization rate** Represents average crude oil consumed in fuel and asphalt refineries for the year expressed as a percentage of the refineries' average annual crude unit capacity adjusted for refinery dispositions.

**Renewables** Energy resources that are not depleted when consumed or converted into other forms of energy (e.g., solar, geothermal, ocean and tide, wind, hydroelectric power, biomass fuels, and hydrogen).

**Reserves** Crude oil or natural gas contained in underground rock formations called *reservoirs. Proved reserves* are the estimated quantities that geologic and engineering data demonstrate can be produced with reasonable certainty from known reservoirs under existing economic and operating conditions. Estimates change as additional information becomes available. *Oil-equivalent reserves* are the sum of the liquids reserves and the oil-equivalent gas reserves. See *barrels of oil-equivalent* and *oil-equivalent gas*. *Potentially recoverable* volumes are those that can be produced using all known primary and enhanced recovery methods.

The rules of the United States Securities and Exchange Commission (SEC) permit oil and gas companies to disclose in their filings with the SEC only proved reserves. Certain terms, such as "probable" or "possible" reserves, or "resources," among others, may be used to describe certain oil and gas properties in sections of this document that are not filed with the SEC.

**Synthetic crude oil** A marketable and transportable hydrocarbon liquid, resembling crude oil, that is produced by upgrading highly viscous to solid hydrocarbons, such as extra-heavy crude oil or *oil sands*.

# GLOSSARY OF ENERGY AND FINANCIAL TERMS

FINANCIAL TERMS

**Cash flow from operating activities** Cash generated from the company's businesses, an indicator of a company's ability to pay dividends and fund capital programs. Excludes cash flows related to the company's financing and investing activities.

**Cumulative effect of change in accounting principle** The effect on net income in the period of change of a retroactive calculation and application of a new accounting principle.

**Margin** The difference between the cost of purchasing, producing and/or marketing a product and its sales price.

**Merger-related expenses** The incremental expenses necessary to effect the combination of Chevron and Texaco. The amount shown on the Income Statement is before income tax. Examples are employee termination expenses; professional service fees for investment bankers, attorneys and public accountants; employee and office relocation costs; expenses associated with closure of redundant facilities; and reconfiguration of information technology, telecommunications and accounting systems.

**Net income** The primary earnings measure for a company, as determined under Generally Accepted Accounting Principles (GAAP), and detailed on a separate financial statement.

**Return on capital employed** (ROCE) ROCE is calculated by dividing *net income* (adjusted for after-tax interest expense and minority interest) by the average of total debt, minority interest and *stockholders' equity* for the year.

**Special items** Amounts that because of their nature and significance are identified separately to help explain the changes in net income and segment income between periods and to help distinguish the underlying trends for the company's core businesses.

**Stockholders' equity** The owners' share of the company – the difference between total assets and total liabilities.

**Total stockholder return** The return to stockholders from stock price appreciation and reinvested dividends for a period of time.